

## Perspective on agriculture’s performance as South Africa enters a technical recession

In the second quarter of 2018 (Q2), South Africa entered a technical recession for the first time since the 2009 financial crisis. One of the key sectors that contributed to the second successive quarterly decline was agriculture. Figure 1 presents the change in real (2010) agricultural GDP per quarter, relative to the same quarter of the previous year. Agriculture’s seasonal nature, as well as the volatility related to weather conditions from year to year, make this BFAP’s preferred method to evaluate the sectors performance. Agriculture posted strong gains in 2017, particularly in Q2 and Q3, and by the end of 2017, real agricultural value added had increased by almost 18% year on year (Stats SA, 2018).

Agriculture’s performance in 2017 was supported by a myriad of factors. Firstly, an all-time record summer crop, which doubled in volume from the drought stricken 2016 production season and was 43% higher than the 10 year average maize production. This combined with higher than expected livestock prices internationally, which in turn supported domestic price levels, as well as bullish horticultural markets globally following unfavourable weather conditions in the Northern Hemisphere. Given that most of these factors have, or are expected to normalise in 2018, a contraction was always expected in the value added by the agricultural sector. Having declined by 3.2% in Q1 2018 relative to Q1 2017, real agricultural GDP declined again by 5.8% in Q2 2018 relative to Q2 2017. Combined, this represents a 5% decline in real agricultural GDP for the first 2 quarters of 2018 relative to the first 2 quarters of 2017.

To provide more detail on the sectors responsible for the decline in 2018, as well as the seasonal nature of agriculture’s contribution, Figure 2 provides the real gross value of agricultural production, disaggregated by subsector, since 2010. It illustrates clearly that the gross value of field crop production typically peaks in Q2 and Q3, while the gross value of animal products typically peaks in Q4.

Unsurprisingly, field crops was the largest contributor to the decline in agricultural

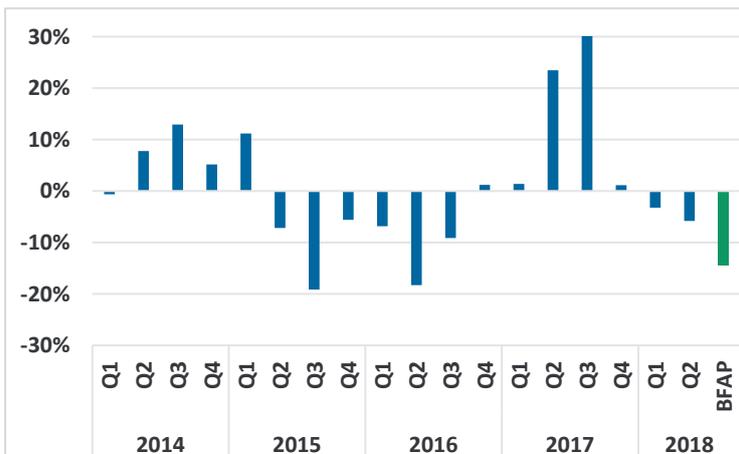


Figure 1: Year on year change in real (2010) agricultural GDP per quarter and BFAP’s projected annual change in real GDP in 2018



Figure 2: Real (2010) gross value of production per subsector

GDP in Q2 of 2018 relative to Q2 of 2017, as the gross value of field crop production declined by 31%. Within the field crop sector, significant declines were evident for maize (-54%), groundnuts (-54%), sorghum (-45%) sunflowers (-23%). The record harvest in 2017 left SA with substantial carryover stock in 2018 and while maize production is expected to decline by 3.6 million tonnes (-22%) year on year, average maize prices for the first 6 months of 2018 declined by 13% (yellow maize) and 16% (white maize) relative to the first 6 months of 2017. The decline in the summer crop harvest will also affect Q3 2018, but average maize prices in July and August have increased in 2018 relative to the same period of 2017. Hence the decline in Q3 2018 might be less severe.

The gross value of animal products contracted by 0.4% in Q2 2018 relative to Q2 2017. The biggest decline is attributed to pork (-13%), where prices declined drastically following the Listeria outbreak, and milk (-14%), where prices declined relative to 2017 levels due to weaker demand for dairy products. The value of wool production increased by 31%. The gross value of horticultural production declined by 8% in Q2 2018 relative to Q2 2017, influenced by the lasting effects of the 2017 drought in the Western Cape, which reduced production volumes. Of the larger horticultural subsectors, the biggest reduction in gross production value in Q2 2018 relative to Q2 2017 was for vegetables (-17%), viticulture (-15%), Citrus (-9%) and deciduous fruit (-8%).

Considering the periods where the production value of specific subsectors tend to peak, another decline in real agricultural GDP is projected in Q3 2018 relative to Q3 2017, before stabilising in Q4, supported by animal products and significant improvement in the winter crop following improved weather conditions in the Western Cape and a weaker exchange rate. For the harvest year 2018 (as opposed to calendar years reported by Stats SA), BFAP projects a 14% decline relative to the harvest year of 2017. Whilst uncertainty in the land policy environment does impact investment decisions, and hence longer term performance. the current decline in GDP is attributed to other factors.